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Decentralized budgetary and financial arrangements for central services

Report of the Secretary-General**

Summary

The General Assembly, in section II of resolution 56/253 of 24 December 2001, requested the Secretary-General to study the possibility of introducing a practice whereby user departments within the United Nations Secretariat would be responsible from their own budgets for the consumption and payment of those central services currently borne centrally under section 27, Management and central support services, of the regular budget.

The present report outlines the measures already in place for decentralized funding of central services and provides a conceptual review of the advantages and disadvantages of decentralized funding arrangements. The report also reviews the potential for further decentralized funding of central services.

It is recommended that the General Assembly take note of the report.

* A/57/150.

** The preparation of the present report was delayed owing to the need for consultations with relevant central services.

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I. Background

1. In section II, paragraph 37, of its resolution 56/253 of 24 December 2001, the General Assembly requested the Secretary-General to study the possibility of introducing a practice whereby user departments within the United Nations Secretariat would be responsible from their own budgets for the consumption and payment of those central services currently borne centrally under section 27, Management and central support services, of the regular budget. The request has been understood to relate to services that would continue to be provided centrally from an operational standpoint, but for which the funding would be decentralized to the budgets of user departments and offices. Users, by providing reimbursement for services rendered, would be in a position to control the consumption, and to some extent the quality and cost, of the services received from the central administrative units.

2. The concept under study at the request of the General Assembly is not new. In some areas of the central support services, it has been gradually introduced and implemented over the years since the early 1980s. A proposal for decentralizing the costs of long distance telephone services at Headquarters was first made in the context of the proposed programme budget for the biennium 1982-1983 (A/36/6), vol. II, para. 28D.79. The Assembly endorsed the proposal. Later, similar decentralization of funds was introduced at Headquarters in connection with the programmes of replacement and servicing of office automation equipment, use of the International Computing Centre (ICC) resources, travel and removal activities, certain components of the consolidated office and stationery supplies programme and funds relating to the central publication programme. The same approach with respect to some similar activities has also been adopted by the United Nations Offices at Geneva and Vienna. Furthermore, in the context of the programme budget for the biennium 2002-2003, all telecommunications costs relating to voice and fax services financed from the regular budget at Headquarters have been decentralized to user departments and offices.

II. Conceptual aspects

3. Support services comprise a variety of activities provided to user departments and offices and could be classified as follows:

> **Central services** are those that are provided to United Nations Secretariat organizational units and are carried out under a direct line of management authority that is within the Secretariat;
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> **Common services** are those that are provided not only to the United Nations Secretariat but also to "client" organizations including the United Nations Development Programme (UNDP), the United Nations Children's Fund (UNICEF), the United Nations Population Fund (UNFPA) and the United Nations Office for Project Services (UNOPS). Management of such common services requires a responsiveness to the concerns of these client organizations whose consent and cooperation are an essential element of the common services framework.

4. A service can be both central and common: in fact, common services provided at United Nations Headquarters are based on existing central services.

5. The discussions in the present report are largely focused on the first type of services, central services. The aspects of common services, including the mode of their financing, have been recently reviewed by the General Assembly on the basis of specific reports submitted to the Assembly by the Joint Inspection Unit (JIU) (A/55/856 and Add.1) and by the Secretariat (A/54/157 and A/55/461). The common services issues are further elaborated in a subsequent report of the Secretary-General (A/57/176) which is currently before the Assembly. A listing of common services provided at United Nations Headquarters is included in paragraph 10 below.

6. For efficient, flexible and cost-effective central services, it is essential that such services be operated in a businesslike, client-oriented manner. This could be accomplished by setting specific financial, service quality and other performance targets for the service provider, and monitoring performance on a regular basis. From the perspective of management and operation, central services are often more efficient because operational decisions can be taken and carried out more readily than those affecting common services,

which in turn require extensive consultations for consensus-building. Centralized services also secure important economies of scale and the advantages of large volume pricing and discounts which would not be available to individual end-users. Staffing considerations have further re-enforced the centralization concept. Centralized staffing provides for better, more efficient and faster response during periods of peak demand for services. It further allows for greater flexibility in the adjustment to changes in conditions of services or markets.

7. While decentralization of operational aspects of central services could sometimes prove to be counterproductive, the redistribution to user departments of currently centralized budgetary resources and subsequent cost recovery from end-users deserve a closer look as they can allow the gains from economies of scale to be preserved while improving the client orientation of the service providers.

8. There are certain advantages inherent in charge-back/reimbursement procedures for the services rendered. User departments can become more cost-conscious after receiving direct financial responsibility over their expenditures. Cost awareness can serve as an incentive to increase efficiency on the part of both service providers and users.

9. Cost recovery of centrally provided services has been implemented at the Secretariat in various forms. One charge-back modality has been in existence for several bienniums in the form of service-level agreements between the Information Technology Services Division (ITSD) of the Office of Central Support Services, and user departments and offices at Headquarters, for information technology user support services, such as help-desk, software distribution and local area network (LAN) services. Under these agreements, on the basis of a charge per unit (personal computer installed), user departments and offices can choose among three available levels of service, including different combinations of hardware and software maintenance, help desk services and LAN administration. The required level of resources for each user department is then estimated and established during the formulation of the programme budget. Since the expenditure levels are set from the beginning, there is no need for complex billing, and reimbursement procedures are kept fairly simple. The disadvantage of these arrangements is the lack of control by the end-users of the quality and costs of the service.

10. Another system of reimbursement consists of contributions by users to the service provider's budget based on the total expenditures of previous years divided by an agreed-upon unit of service. Under this modality, extensive, and often complex, workload statistics have been developed and agreed upon between the provider and its clients. These statistics measure units of service throughout a wide range of services (namely, number of pouch bags delivered, number of pieces of correspondence processed, number of staff whose household items have been transported, number of staff trained in language classes, number of staff processed in payroll etc.). A proportion (or weight) is then established for each user's utilization of the total services provided. The total operational expenditures of the provider (both staff and non-staff) are then divided on a prorated basis among the users and billed accordingly. This system has been in place for many years with respect to the various common services provided by the Secretariat at Headquarters to the United Nations funds and programmes at Headquarters (UNDP, UNFPA, UNOPS and UNICEF). Its application, however, is limited to areas that provide measurable units of service. These include, inter alia, the following 21 services: Treasury services, Joint Appeals Board, Payroll, Insurance, Advisory Board on Compensation Claims, United Nations Claims Board, secretariat of the United Nations Board of Auditors, Staff counselling, General Service examinations, Language training, Medical services, Security and safety, Central switchboard (telephone), Laissez-passer/Visas, Commercial transport, Local transport, Mail dispatch, Pouch, Legal services, United Nations Administrative Tribunal, and United Nations Joint Staff Pension Fund. Infrastructure-related services or services not individually measured (that is to say, general building maintenance, elevator services, utilities) will not provide accurate data on a prorated basis if this model of charging and reimbursement for services is utilized.

11. Charge-back modalities based on usage or utilization billing introduce issues that deserve further in-depth evaluation, however. As indicated above, such a billing charge-back process has been in place in the area of telecommunications since the beginning of 2000. In this case, the nature of telephone and telecommunications technologies allows for a relatively low-cost implementation of a charge-back arrangement, since inherent country-and-city-code routing features of the telephone exchange easily

translate directly dialled long distance and international calls to an internal United Nations network, which generates the appropriate billings. User departments at Headquarters receive billings from ITSD, broken down by existing account identification. Users are charged for long distance calls made from all telephone units operating from the respective departments, under an interregional rate schedule regularly updated to assure that United Nations rates are below the lowest rate available from commercial service providers. They receive one bill for all calls made using the United Nations Secretariat network and calls made using private carriers, and ITSD can easily validate service provider billings. Reimbursements from the billings finance the telephone services to users at Headquarters. This advantage, unfortunately, cannot be easily applied to reimbursements in most other areas. Some central services (for example, administration of staff at Headquarters by the Operational Services Division of the Office of Human Resources Management) are of a multiple nature, making it difficult to arrive at a universal service unit allowing for cost measurement. In this case, the cost to provide the services varies, depending not only on the volume of specific activities or transactions provided, but also on types of such transactions. Thus, in such cases, the development of a charge-back mechanism would require budgeting of and accounting for core functions on a per-service basis. This, in turn, would create a fluctuation in funding between budgeting periods, which would endanger the continuous provision of the required services, apart from a significant increase in administrative work at both the central offices providing such services and the user departments.

12. The experience in operating a charge-back system in the telecommunications area also demonstrates that some overall costs cannot be assigned on the basis of prorata or past experience. Facilities maintenance, or security and safety services, for example, may be cases in point. These services are not targeted to individual departments and offices, but rather are provided for the whole United Nations compound, including delegates, public and general use areas of the premises. It may be possible to charge back such service per call for repairs, or per emergency, but it would be improper to charge the organizational units located in the compound with the overall maintenance or security cost for the compound. Also, from a technical standpoint, while it may be possible to assign such costs to departments and offices based on the previous financial period's total expenditures on the basis of square footage, future costs can only be estimated. Therefore, adjustments would be required at the end of the fiscal period, resulting in budgetary surplus or deficit, which in turn would significantly limit the flexibility for managing resources that the centralized service arrangements provide for.

13. Charge-back modalities for procurement services introduce their own set of complications. Since high-value procurement often emanates from aggregated multiple-office requirements, it can be further anticipated that high-consumption offices will wish to see the benefits of their volume directly. The charge back on a per consumption basis would result in this case in a dissipation of the benefits of volume purchasing.

14. In general, a crucial factor in considering whether budgeting of costs of a particular central service should be decentralized is the issue of who is an end-user of the service. As indicated in paragraph 12 above, one group of central services comprise the services provided for the United Nations compound as a whole. Another group of central services targets members of staff, rather than departments and offices. This group of services comprises payroll, medical and insurance services, language courses, administration of justice, staff counselling and General Service to Professional category examinations. In both cases, it does not seem to be useful to decentralize the related costs to the budgets of the individual departments and offices, because that arrangement would represent a rather mechanical delineation of activities and related resources.

15. The decentralization of resources to user departments and offices would require additional funds for the creation of an operating reserve to be maintained, in order for the central service to be operational until the payments for the services rendered had been made by users. Under the charge-back system, the users pay for the services already delivered, or on an ex post facto basis. Assuming that the billing is carried out on a monthly basis, the central service would need an operating reserve to finance its operations and meet its contractual obligations to vendors and staff, in an amount equivalent to at least one month's costs of the activities, until the payments from users arrive. For example, for the telecommunications operation, which is currently under such arrangements, that reserve has been established in

the amount of $1.1 million. The overall costs of the central services provided to users at established headquarters and at the regional commissions are estimated to be in the amount of some $340 million for the biennium 2002-2003. Should all current central services be financed through the decentralized arrangements, an operating reserve in the amount of $16-17 million in total would need to be maintained at any given time to ensure uninterrupted services. In a charge-back system, the financing of such a reserve would require additional resources.

16. Further to the issues discussed above, it should also be noted that any charge-back system requires an efficient and accurate accounting methodology, as well as a sophisticated monitoring and reporting system supported by a sufficient level of technological infrastructure. While some of the infrastructure (Integrated Management Information System (IMIS)) is in place, in many areas the additional administrative transactions, such as internal billings, payments reconciliation and the related monitoring, would create a significant amount of additional work which cannot be accommodated from within the existing administrative staff force.

III. Review of current central services for possible decentralizing of funding provisions

17. The following is a list of the central services activities at Headquarters that are financed from the central budget approved under section 27, Management and central support services. Similar services in other established headquarters and in the regional commissions are also financed from the central budget established for the organizational unit providing those services under a particular budget section:

(a) In the area of financial services:

(i) Treasury services relating to processing of voluntary and other extrabudgetary contributions and donations made by donors for specific activities;

(ii) Accounts Division services relating to processing, accounting for and reporting on extrabudgetary contributions and related expenditures, payroll, insurance and travel and vendors claims processing services;

(b) In the area of human resources management:

(i) Operational services relating to recruitment, placement, promotion and administration of staff;

(ii) Medical services;

(iii) Job classification services;

(iv) Administration of justice services;

(v) Staff counselling;

(vi) Performance Appraisal System (PAS) process services;

(vii) General Service to Professional category examinations;

(viii) Training and staff development programmes;

(ix) Language courses;

(c) In the area of common support services:

(i) Security and safety services;

(ii) IMIS services;

(iii) Broadcast and meetings services;

(iv) Travel documents and visa services;

(v) Facilities maintenance services;

(vi) Office space;

(vii) Consolidated office and stationery supplies;

(viii) Procurement services.

18. Based on the considerations outlined above, it seems that the central services not directly provided for the organizational units of the Secretariat should be left outside the review of the services for the possible decentralization of the funding arrangements. Of the remaining services, the central services that are also common services (also provided to the funds and programmes) could be potential candidates for decentralized funding arrangements. The accounting and reporting mechanism and charge-back methodology currently exist. However, the one issue that would require a thorough review would be whether the decentralization would on balance be beneficial and improve the efficiency of that central service, bearing in mind the additional overhead costs for accounting and recording that would be required.

19. The first candidate for decentralized funding would be office space after implementation of the capital master plan. Other services for possible decentralized funding could in principle include training services, travel documents and visa services, consolidated office and stationery supplies and procurement services. Nevertheless, the case for changing present arrangements for these is not compelling. It would require expenditure of considerable financial resources to fully develop the necessary recording, accounting and charging arrangements, while the benefits of improved client orientation and responsiveness of service providers are not guaranteed. In fact, while the providers are the sole sources of such services, the efficiency improvements are likely to be marginal. Nevertheless, the need for improved efficiency of central services is fully recognized and will be continued to be pursued by setting performance targets for service providers within the framework existing under results-based budgeting for the use of indicators of achievement.

IV. Conclusions and recommendations

20. **A number of significant centrally provided services are already budgeted on a decentralized basis; these include telecommunications, information technology support, travel and removal services. In addition, over 20 common services are provided centrally but are cost-shared between the United Nations and the funds and programmes (UNDP, UNFPA, UNOPS and UNICEF).**

21. **The discussions above, however, demonstrate the limitations that restrict further expansion of the decentralized budgetary and financial arrangements for central services. Overhead costs resulting from introduction of the decentralized payment arrangements may outweigh the expected benefits. Also, payments for the services rendered imply that the servicing offices are provided in advance with sufficient cash resources for an operating reserve, in order to ensure uninterrupted services, including the timely meeting of all legal obligations of the Organization vis-à-vis staff and external contractors. The need for maintaining such a reserve would call for additional resources.**

22. **In light of the above, the Secretariat intends to keep under review the issue of decentralized budgeting arrangements for central services and will introduce further use of the modality only to the extent that it is consistent with best practices and optimal use of limited resources. Improved efficiency in the provision of central services will continue to be pursued through wider use of performance targets when formulating indicators of achievement.**

23. **It is recommended that the General Assembly take note of this report.**